Dr. Ian Storey is a Research Fellow at the Institute of Southeast Asian Studies (ISEAS), Singapore.

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1. Direction of Trade Statistics Yearbook (Washington D.C.: International Monetary Fund, 2006).
2. Ian Storey, "New energy projects help China reduce its 'Malacca Dilemma'", *Opinion Asia,* May 14, 2007. Available online at: http://www.opinionasia.org/NewEnergyProjectshelpChinareduceitsMalaccaDilemma.
3. Author's interviews with Malaysian government officials and academics, Kuala Lumpur, August 2005 and September 2006.
4. Author's interview with Malaysian strategic analyst, August 2005.
5. Author's correspondence by e-mail with Malaysian defense analyst Dzirhan Mahadzir, June 18, 2007.

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China's Growing Energy Relations with the Middle East

By Wenran Jiang

It is no secret that even as China is attempting to diversify its foreign sources of energy, the Middle East remains a key supplier of the oil and gas that China depends upon to sustain its continuous economic growth. Numerous energy producing states in the Middle East, few of them friends of the United States, are currently seeking new partners and markets. Washington's traditionally close ties with Saudi Arabia are eroding, its confrontation with Iran is intensifying and its war in Iraq is losing support both at home and abroad. Beijing, however, has strengthened its relations with these countries and others in the region in recent years via economic cooperation and trade, especially in the energy sector.

WARMING RELATIONS

China's economic ties with the Middle Eastern countries have been rapidly strengthened in the past few years, partly due to its overall growth in trade with the rest of the world as well as to a mutual desire to bolster relations. Since early 2000, the China-Middle East trade volume has increased at the fastest rate, outpacing China's trade growth with other regions of the world [1]. In 2002, for example, the six Gulf countries had no major investments in new company facilities in China, but by 2006, they had established 13 ventures, seven of which were financed by the United Arab Emirates (UAE). They are expecting to invest a further $250 billion in the Asian market, including China, over the next five years. Moreover, trade between these countries and Asia doubled between 2000 and 2005, reaching $240 billion. When the Industrial & Commercial Bank of China launched its $22 billion public offering last October, Gulf investors bought approximately 20 percent of the shares (AP, April 11).

Other recent major China-Middle East business deals, according to data from the Gulf Research Centre in Qatari Diar and other sources, include the following:

- Dubai's Dragon Mart shopping mall and residential complex is now the largest trading hub for Chinese wholesalers outside mainland China;
- China's builders, engineers, labor suppliers and equipment companies won shares in the $1 trillion projects planned or under construction in the Gulf (AP, April 11);
- Kuwaiti plans to build a $5 billion refinery in China's Guangdong province, which would make the 300,000-350,000 barrels per day (bpd) plant China's largest petrochemical joint venture;
- Dubai-based operator, DP World, announced a $500 million investment in a Tianjin container terminal;
- Damac Properties of the UAE invested $3 billion in a real estate project in Tanggu district;
- State-owned Kuwait Investment Authority announced last November that it had a $720 million stake in the Industrial and Commercial Bank of China;
- SABIC announced last November that it was planning a joint-venture in China worth up to $5 billion;
- A Chinese firm won a contract to prepare the site for a new Doha neighborhood expected to house 200,000 people (AP, April 11).

Amid such developments, China has tried to enhance its traditionally modest portfolio in the region. As early as 2002, China has appointed a special envoy for Middle East affairs, a post that is currently filled by Ambassador Sun Bigan. Beijing hosted Palestinian foreign minister and Hamas member Mahmoud Zahar last year, but thus far it has not been effective in asserting a Chinese role in mediating the Israel-Palestine conflict or other major political affairs in the region. Beijing has also been active in UN activities, ranging from pre-war arms inspections in Iraq to participation in the UN peacekeeping mission in Lebanon in 2005. The Chinese team cleared away thousands of cluster bombs in Lebanon last year after the end of the Israeli-Hezbollah war.

As the world's third largest oil importer after the United States and Japan, China is projected to import 70 percent of its oil from the Middle East by 2015, according to the International Energy Agency's forecast. For this reason, China intends to open a dialogue with OPEC countries. Chinese Assistant Minister of Foreign Affairs Zhai Jun stated, "China wants to participate in making big decisions in the world. We want to set up a mechanism to negotiate and discuss oil market issues with the OPEC countries" (*Gulf News*, December, 6, 2006).

There appears to be an equal amount of enthusiasm from the Middle Eastern countries to take advantage of the world's fastest growing market. China's presence is largely perceived as non-ideological, economically oriented and pragmatic. Furthermore, there is little concern that China's increasing status as a world power will constitute an international threat. "Hegemony, domination, imperialism are associated with the United States and Europe. China is not seen that way," commented Sami Baroudi, a Lebanese political scientist, "Arabs appreciate its economic might, but don't see it as a political threat" (Reuters, November, 27, 2006).

The Three Notables: Saudi Arabia, Iran and Iraq

The most significant aspect of China's warming relations with the region is its fast growing contacts and economic interactions with Saudi Arabia, Iran and Iraq—the three countries with which Washington seems to have increasing difficulties in recent years (and with which there is little prospect of improvement in the sitting-duck period of George W. Bush's presidency).

Saudi Arabia has shown eagerness in pursuing China as a new partner. Saudi Foreign Minister Prince Saud Al-Faisal said in 2004 that Saudi Arabia would like to reduce its dependence on U.S.-dominated security arrangements. King Abdullah chose China for his first trip abroad as Saudi monarch in April and described it as a "truly friendly country" (Reuters, November, 27, 2006; AP, April 11). Shipping 60 percent of its crude to Asian markets, Saudi Arabia has been the largest oil supplier to China. Although it was overtaken by Angola last year, China has agreed to increase imports from the kingdom this year by nine percent, or 44,000 bpd, a move that might restore Saudi Arabia to its previous role as China's top supplier of oil (*Reuters, January 9)*.

Bilateral business deals have made headway. Prince Abdulaziz Bin Salman, assistant Saudi oil minister, said that the kingdom's 4.5 million bpd of oil exports to Asia and joint ventures in four Far Eastern countries were a "solid base" and "[t]he show is not over yet" (*Dow Jones International News*, May 1). Giant Chinese energy companies are striving for access to Saudi's lucrative energy sector through exploration contracts and downstream investments. For example:

- March 2004: Sinopec signed a $300 million gas exploration license for nearly 40,000 square km in the Empty Quarter deserts of Saudi Arabia's Rub al-Khali Basin;
- January 2004: China's Sinopec signed an agreement with its Saudi counterpart, Saudi Aramco, to develop natural gas resources near the Ghawar field in the country's east over 10 years. Ghawar is the world's largest conventional oil field;
- March 2007: Aramco inked an agreement with Sinopec and Exxon Mobil Corp. to upgrade a refinery at Quanzhou, in the southeastern Chinese province of Fujian to 240,000 bpd and to operate around 750 filling stations locally (*Dow Jones International News*, May 1; Reuters, November 26, 2006).
- June 2007: China Petroleum Pipeline Bureau and China Petroleum Engineering and Construction (Group) Co. Ltd signed an agreement to jointly lay a crude oil pipeline for Saudi Arabia. The 360km-long pipeline is a section of the Abu Dhabi Pipeline, and will ship oil from Saudi Arabia's Habshan Oil Field to Fujairah (Xinhua, June 5).

Iran, locked in bitter dispute with the West over its nuclear weapons program, is equally keen to develop stronger relations with China. Currently, Iran is the world's fourth largest oil exporter and the third biggest source of China's oil imports, providing 12 percent of the total in the first 10 months of 2006, behind Angola and Saudi Arabia (*The Australian*, November 29, 2006). China's crude imports from Iran are up 11 percent in the first four months of this year against the same period in 2006 (Reuters, June 10). Due to U.S.-led sanctions, Iran lacks funds to explore its energy fields and seeks to secure markets for its exports. In the past few years, the following major energy pacts have been discussed and planned between the two countries:

- Zhuhai Zhenrong, one of China's four big state oil traders, agreed in 2004 to buy more than 110 million tons of liquefied natural gas from Iran for $20 billion, over 25 years from 2008;
- China's largest integrated oil and gas company, China National Petroleum Corp (CNPC), is reportedly holding discussions with National Iranian Oil Company (NIOC) to develop the giant Kish gas field in the Gulf;
- Sinopec signed a $2.8 billion contract to expand the capacity of an Iranian refinery at Arak in July

last year;
- China's largest offshore oil producer China National Offshore Oil Corp. (CNOOC) announced last December that it had signed a preliminary deal with Iran to develop Iran's offshore North Pars gas field in the Gulf, with a potential investment of $16 billion from the Chinese side. CNOOC will finalize the deal by August this year;
- Iran is also in discussions with Beijing to assist China in filling its strategic oil reserves (Reuters, November 26, 2006; AFX International Focus, January 11; Dow Jones Energy Service, May 20; Reuters, June 10).

One particular energy package has the potential to dwarf every global deal that the Chinese have made. Sinopec, China's second largest oil company, commenced talks with Iran in 2004 for an energy agreement of up to $100 billion. Iran does not allow foreign ownership of its natural resources, but as part of the contract, Sinopec will gain a 51 percent stake in the Yadavaran oil field near the Iraq border. It will be permitted to finance the project and recover its investment at an agreed rate from the output. If materialized, this will provide China with 150,000 bpd of oil and 250 million tons of liquefied natural gas over a 25-year period (*The Australian*, November 29, 2006).

Iraq, torn by the ongoing war, is known for its operational difficulties regarding energy extraction. Nevertheless, the country claims the world's third largest conventional oil reserve, with only 10 percent presently explored. Such resources have proved tempting for China, which has made a remarkable comeback in the country during past months. Iraqi President Jalal Talabani and his oil minister Hussein al-Shahristani visited Beijing last month to discuss cooperation and investment, and as a gesture of goodwill, Beijing cancelled a portion of Iraq's $8 billion debt to China in a number of signed agreements.

Before the war, China had agreed to develop Iraq's Adhab oil field with a $700 million investment under Saddam Hussein, and the new Iraqi government currently renegotiating the deal with Beijing. Thamer al-Ghadhban, who advises Iraqi Prime Minister Nouri al-Maliki on oil policy, noted that "China is very important for us—their Ahdab field is in a fairly safe area, but [the contract] will be amended" (Dow Jones Emerging Markets Report, June 2). Chinese energy companies have also demonstrated, as they have in Angola, that they are willing to invest and work in very challenging conditions with extremely competitive terms. Baghdad has begun to conduct business again with China. One Iraqi official said, "It is not wise to sideline anybody. The era of signing contracts based on our mood and relations is gone. The contracts will be given to those who are capable of doing the work" (Reuters, November 27, 2006).

Strategic Implications

It is predictable that some observers in the United Sates might be alarmed by such developments. They are likely to reach the conclusion that China is making inroads in the Middle East at the expense of the United States [2]. The real situation, however, is more complex. China's gain in the region may have more to do with the troubled U.S. Middle East policies than result from a master plan by Beijing to push the United States out of the region.

There is no strong evidence that the Chinese engagement with the region is designed to undermine U.S. interests. While not being entirely compliant with Washington's wishes, Chinese officials, nevertheless, have repeatedly emphasized the commercial nature of China's relations with the Middle East [19]. In addition, Beijing remains a relatively new actor in both the region's oil fields and its politics. In spite of the speculation in the Chinese press that China is constructing an aircraft carrier and is building a blue water navy, the U.S. Navy remains in control of the sea-lane security for oil routes from the Persian Gulf to the Strait of Malacca. For reasons ranging from fundamental trade to economic and political concerns, Beijing does not seek a confrontational approach with Washington in the Middle East. Nor are there clear indications that China is willing to adopt a counter-weight role vis-à-vis the United States.

China, nevertheless, will undoubtedly come to the region to compete for energy as a major world power in the coming years. The challenges for both Washington and Beijing to ensure that they are not on a collision course in the region, require the following: China's enhanced ties with Saudi Arabia must not result in a zero-sum game in the context of Saudi-U.S. relations; China and the United States should seek coordinated policies regarding the resolution of the Iranian nuclear crisis; and with the return of Chinese companies to Iraq, China should strive to stabilize the situation in post-war Iraqi construction.

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1. Author's calculations according to the Chinese Customs statistics.
2. For example, see the recent op-ed by Frank J. Gaffney Jr., "China's double standard," *The Washington Times*, June 26, 2007.
3. See Wu Lei, "On the Development of Sino-Middle East Energy Relations Guanyu" [*Zhonggu-Zhongdong nengyuan guanxi fazhan de ruogan sikao*], *Arab World Studies* [Alabo Xijie Yanju], No. 1, 2007; Yang Guang, "Cooperation of Mutual Benefit between China and the Mid- Eastern Countries: From the Perspective of Energy Connections" [*Cong negnyuan kan Zhongguo yu Zhongdong guojia de huli hezuo*], *West Asia and Africa* [Xiya Feizhou], No. 5, 2004.

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